

Message Text

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AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY LONDON

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AMEMBASSY WARSAW

USNMR SHAPE CASTEAU

CINCUSAREUR HEIDELBERG

USCINCEUR VAIHINGEN

CINCUSAFE RAMSTEIN

SECDEF WASHDC

DIA WASHDC

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USNMR SHAPE FOR POLAD

CINCEUR FOR POLAD
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E.O. 11652: GDS
TAGS: PFOR PINT ECON YO
SUBJ: YUGOSLAVIA - POLITICAL AND ECONOMIC TRENDS - JUNE 1974

REF: BELGRADE 1348

SUMMARY: PAST THREE MONTHS HAVE SEEN CULMINATION OF FOUR-YEAR EFFORT BY YUGOSLAV LEADERSHIP TO ENSURE INSTITUTIONS AND POLICIES OF TITOISM SURVIVE TITO HIMSELF: NEW, SMALLER COLLECTIVE LEADERSHIP GROUP TO SUCCEED TITO WAS FORMALIZED AS TIGHTLY INTERLOCKING GOVERNMENT-PARTY MECHANISM; NEW CONSTITUTION WAS RATIFIED PLACING GREATER EMPHASIS ON WORKER PARTICIPATION AND NEW WORKER-DELEGATE ASSEMBLIES WERE CONVENED; TENTH LCY CONGRESS CONFIRMED EFFORTS TO ACHIEVE INTERNAL TIGHTENING UP OF PARTY AND TO GIVE PARTY BACK GREATER RESPONSIBILITY FOR DIRECTING YUGOSLAV SOCIETY; AND HEIGHTENED ROLE GIVEN TO YUGOSLAV ARMY IN POLICY AND ADMINISTRATION. PROSPECT NOW IS FOR CONTINUITY OF POLICIES AND PEOPLE ON BOTH GOVERNMENT AND PARTY SIDES. IN ECONOMY, INFLATION WILL REMAIN ABOUT AT LEVEL OF PAST FEW YEARS, BUT REAL GROWTH IN BOTH GNP AND INDUSTRIAL OUTPUT WILL IMPROVE. IN FOREIGN POLICY, YUGOSLAVS WILL TRY TO INCREASE INFLUENCE OF NONALIGNED GROUP AND TO ENHANCE THEIR OWN LEADERSHIP POSITION INSIDE THAT GROUP.
END SUMMARY.

1. "LET NO ONE HARBOR VAIN HOPES THAT YUGOSLAVIA MIGHT CHANGE. INDEPENDENT, SOCIALIST AND NONALIGNED YUGOSLAVIA BEST SERVES, JUST AS IT IS, THE INTERESTS OF PEACE AND PROGRESS IN THE WORLD". SPEAKING THUS AT OPENING SESSION 10TH YUGOSLAV LEAGUE OF COMMUNISTS (LCY) CONGRESS MAY 27, JOSIP BROZ TITO SOUNDED NOTE OF CONTINUITY WHICH WAS TO BE REFRAIN OF CONGRESS IN DOMESTIC AS WELL AS FOREIGN AFFAIRS AND WHICH SET TONE FOR FUTURE.

2. IN PAST THREE MONTHS YUGOSLAVS HAVE (A) RATIFIED NEW CONSTITUTION, (B) PUT IT INTO EFFECT BY REFORMING ALL GOVERN-
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MENTAL POLITICAL INSTITUTIONS FROM OPSTINA ASSEMBLIES TO PRESIDENCY, AND (C) HELD LCY CONGRESS, CLEARLY INTENDED TO CAST THE DIE FOR POST-TITO ERA. BUT RATHER THAN MARKING A BEGINNING, THESE PROCESSES HAVE SERVED AS CULMINATION OF AN EXTENDED PERIOD OF POLITICAL ACTIVITY, CAPSTONE OF FOUR-YEAR EFFORT BY TITO AND HIS CLOSEST CONFIDANTS TO SO MOULD YUGOSLAV GOVERNMENTAL AND POLITICAL INSTITUTIONS THAT TITOISM WILL SURVIVE TITO. LCY EXECUTIVE COMMITTEE SECRETARY STANE DOLANC

PUT IT THIS WAY, TALKING CANDIDLY TO WESTERN NEWSMEN BEFORE CONGRESS: "WE ARE NOT A KINGDOM WHICH HAS TO FIND AN HEIR APPARENT...TITO IS NOT JUST JOSIP BROZ."

3. SURPRISING THING IS DEGREE TO WHICH THIS PROCESS HAS LED NOT TO CHANGE BUT TO PERPETUATION -- BOTH OF POLICIES AND OF PEOPLE. TRUE, EXPERIMENT IN PARTY DECENTRALIZATION WHICH FOUNDERED ON SHOALS OF ECONOMIC DISPARITY AND ETHNIC RIVALRY HAS BEEN DECISIVELY TERMINATED AND WITH IT POLITICAL CAREERS OF A HANDFUL OF STARS WHO SHONE BRIGHTLY, IF BRIEFLY. BUT THIS ALL HAD HAPPENED BEFORE THESE LAST FEW MONTHS. AND WHAT WE NOW HAVE SEEN IS FORMATION OF SHREWDLY BALANCED INTERLOCKING DIRECTORSHIP WHICH INTERTWINES PRINCIPAL ACTORS IN PARTY, ARMY AND GOVERNMENT IN MANNER DESIGNED TO GUARANTEE THAT INTERESTS OF ALL PARTS OF POWER STRUCTURE IN THIS DIVERSE SOCIETY WILL BE PROTECTED AND SERVED NOW AND AFTER TITO GOES. TITO'S MOST TRUSTED CONFIDANTS FROM ALL REPUBLICS AND NATIONALITY GROUPS SERVE IN ONE OR MORE OF THREE BODIES: EIGHT-MAN STATE PRESIDENCY (TITO BEING NINTH), 38-MAN LCY CENTRAL COMMITTEE PRESIDUM (TITO BEING 39TH), AND 12-MAN LCY CC EXECUTIVE COMMITTEE. CENTRAL CORE OF THIS GROUP IN PARTY PRESIDUM CONSISTS OF THE EIGHT PRESIDENCY MEMBERS PLUS DOLANC AND THE OTHER FIVE SECRETARIES FROM LCY EXECUTIVE COMMITTEE. THERE IS NOT A NEW FACE AMONG THEM.

4. WHAT IS NEW IS HEIGHTENED ROLE IN ALL THIS FOR ARMY -- IN ADDITION TO PARTY THE ONLY ALL-YUGOSLAV COHESIVE FACTOR (AND THE ONE TITO INVOKED TO BACK HIM WHEN HE HAD TO PUT DOWN RENEGADE CROAT PARTY IN 1971). TWO KEY GOVERNMENT SECRETARIES -- DEFENSE AND INTERNAL AFFAIRS -- ARE NOW HEADED BY ACTIVE DUTY GENERALS. DEFENSE SECRETARY AND ARMY PARTY CHIEF SIT ON PARTY PRESIDUM, LATTER BY VIRTUE OF HIS CONSTITUENT PARTY POSITION IN SAME WAY CHIEFS OF REPUBLICAN AND PROVINCIAL

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PARTIES ARE THERE. FINALLY, ANOTHER GENERAL IS A MEMBER (BUT NOT A SECRETARY) OF LCY EXECUTIVE COMMITTEE. THUS, THE ARMY WILL PLAY AN ENHANCED ROLE BOTH IN POLICY AND ADMINISTRATION. JOHNSON

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5. AS FOR POLICIES: ADHERENCE TO WORKER SELF-MANAGEMENT, AS WELL AS NEW WORKER-DELEGATE SYSTEM, HAS BEEN SOUNDLY RE-AFFIRMED; NONALIGNMENT HAS ALSO BEEN REAFFIRMED AND TALKS OF ANY MOVEMENT TOWARD EITHER MAJOR POWER BLOC HAS BEEN FIRMLY REJECTED. PARTY IDEOLOGIST KARDELJ MADE LATTER POINT PHILOSOPHICALLY WHEN HE EXPLAINED THAT SOVIET-STYLE "MONOPOLY OF TECHNO-STRUCTURE" IS NOT MODEL OF SOCIALISM FOR NONALIGNED; DOLANC MADE IT MORE EXPLICITLY WHEN HE SAID THAT, AS REGARDS "THEORY OF LIMITED SOVEREIGNTY OF SOCIALIST COUNTRIES, NOTHING HAS CHANGED IN OUR POSITION ON THAT QUESTION".

6. NEITHER PARTY CONGRESS NOR GOVERNMENT RESHUFFLE BROUGHT ANY HINTS OF DRASTIC ECONOMIC CHANGES. NOR WOULD SUCH MOVES APPEAR NEEDED AT THIS TIME. IN A YEAR OF INTERNATIONAL TURMOIL, YUGOSLAVIA'S ECONOMY IS PERFORMING REASONABLY WELL.

7. WITH ENTERPRISE LIQUIDITY IMPROVED AND INVESTMENT VERY STRONG, AND WITH CONSUMER DEMAND AND EXPORTS SATISFACTORILY AHEAD, REAL GROWTH IN BOTH GNP (6 PERCENT) AND INDUSTRIAL OUTPUT (10 PERCENT) IS RIGHT ON TARGET -- AND BETTER THAN THE PACE OF RECENT YEARS. RISE IN PRODUCTION, PRODUCTIVITY AND PROFITABILITY HAS MADE POSSIBLE RESUMPTION OF GROWTH IN REAL EARNINGS (AFTER LAST YEAR'S INTERRUPTION), AND HAS KEPT INFLATION SOMEWHAT IN CHECK -- AT BY NOW CUSTOMARY 16-18 PERCENT ANNUAL RATE -- DESPITE EXTRA BURDEN OF SKY-ROCKETING IMPORT PRICES. NEW FORMS OF SELF-MANAGEMENT HAVE NOT CRIMPED STYLE OF YUGOSLAVIA'S INGENIOUS AND ENERGETIC ENTERPRISE DIRECTORS AND MAY EVEN HAVE BENEFICIAL EFFECT OF GIVING WORKERS SENSE OF INCREASED PARTICIPATION, THUS SPURRING THEM TO SOMEWHAT GREATER EFFORT.

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8. CONTRARY TO CONCERNS EXPRESSED FEW MONTHS AGO, HARD CURRENCY EARNINGS FROM YUGOSLAV WORKERS ABROAD AND FROM TOURISM WILL PROBABLY BE UP 10 TO 20 PERCENT THIS YEAR AND AGAIN CONSTITUTE A KEY SAFEGUARD AGAINST SERIOUS DETERIORATION IN THE BALANCE OF PAYMENTS. TRADE GAP WILL WIDEN, HOWEVER -- REFLECTING, IN PART, BARRIERS TO EXPORT OF MEAT TO ITALY AS WELL AS INCREASED FUEL IMPORT COSTS -- AND SO CURRENT ACCOUNT SURPLUSES OF RECENT YEARS WILL GIVE WAY TO MODERATE DEFICIT, TO BE COVERED FROM ACCUMULATED RESERVES.

9. UNDER THESE CIRCUMSTANCES, NEW GOVERNMENT WILL PROBABLY

FURTHER SLOW DOWN OR PUT AN END TO IMPORT LIBERALIZATION, AND MAY WELL IMPOSE SOME IMPORT CURBS, PARTICULARLY IN FUEL AND CONSUMER GOODS AREAS. DRIVE TO RAISE EXPORTS OF GOODS AND SERVICES TO NEWLY WEALTHY MIDDLE EASTERN COUNTRIES WILL INTENSIFY AND PROBABLY BEGIN TO SHOW MEANINGFUL RESULTS. PARTNERSHIP WITH WESTERN FIRMS WILL BE SOUGHT FOR THESE ENDEAVORS.

10. NEW GOVERNMENT WILL TRY HARDER TO CONCENTRATE NATIONAL RESOURCES ON PRIORITY DOMESTIC DEVELOPMENT AREAS -- INFRA-STRUCTURE, ENERGY, BASIC MATERIALS, AGRICULTURE -- WITHOUT, HOWEVER, GOING BEYOND TRADITIONAL MEANS OF EXERCISING INFLUENCE. IN THESE AND OTHER AREAS, AMERICAN EQUIPMENT AND KNOW-HOW WILL CONTINUE TO BE ACCORDED FIRST PREFERENCE BY END-USERS, AND, PROVIDED APPROPRIATE EXIM, OPIC AND PRIVATE FINANCIAL FACILITIES CONTINUE TO BE AVAILABLE, STEEP CURRENT UPWARD TRENDS IN US EXPORTS AND INVESTMENT CAN UNDOUBTEDLY BE MAINTAINED. FACT THAT YUGOSLAVS ARE AWARE OF VITAL IMPORTANCE OF THIS US SUPPORT WAS BROUGHT HOME TO US FEW MONTHS AGO WHEN EXIM AND OPIC PROGRAMS RAN INTO TEMPORARY TROUBLES ON THE HILL.

12. IN COMING MONTHS YUGOSLAV LEADERS WILL DEVOTE THEMSELVES TO THE PROCESS OF SORTING OUT HOW TO OPERATE GOVERNMENT WITH ITS NEW STRUCTURE AND NEW APPROACH TO DIVIDING RESPONSIBILITIES AMONG BELGRADE, REPUBLICAN/PROVINCIAL CAPITALS, AND LOCAL LEVELS. THEIR AGENDA SHOULD BE FULL, IF REPORTS OF SUB-SURFACE DISAGREEMENTS AT PARTY CONGRESS ARE AT ALL ACCURATE. IT WOULD BE UNREALISTIC NOT TO FACTOR IN TO ANY EVALUATION
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OF COLLECTIVE LEADERSHIP UNDER (AND AFTER) TITO THE INEVITABLE JEALOUSIES AND FRICTIONS WHICH WILL AT TIMES PUT STRAIN ON WORK AND POLICIES OF THAT GROUP. PARTY LEADERS WILL ALSO CONCENTRATE ON HOW COMMUNISTS RELATE TO BASIC ORGANIZATIONS OF ASSOCIATED LABOR AND ON HOW THROUGH THIS MECHANISM TO INSTILL PARTY FERVOR IN WORKERS AND THE YOUNG. TITO EVEN HELD OUT SOME HOPE FOR REHABILITATING CERTAIN PURGED PARTY FIGURES IN SPEECH GIVEN IN SERBIA SHORT TIME AFTER LCY CONGRESS ENDED (BUT NOBODY HERE IS PUTTING ANY MONEY ON EX-SERBIAN PARTY CHIEF NIKEZIC BEING BROUGHT OUT OF OFFICIAL DISGRACE IN TITO'S LIFETIME.)

12. IN FOREIGN POLICY, YUGOSLAVIA WILL CONTINUE ITS AVID PURSUIT OF NALIGNMENT AND ONCE AGAIN WILL USE UNGA AS VEHICLE FOR TRYING TO INCREASE INFLUENCE OF THAT EMERGING BLOC AND YUGOSLAV ROLE IN DIRECTING IT. AND YUGOSLAVS ONCE AGAIN WILL FACE SERIOUS PROBLEMS AS THEIR DESIRE FOR NON-ALIGNED LEADERSHIP REQUIRES THEM TO DO AND SAY THINGS WHICH IMPINGE ON OTHER OBJECTIVES, SUCH AS MAINTAINING GOOD RELATIONS

WITH (AND CREDIT LINES FROM) DEVELOPED COUNTRIES AGAINST
WHOSE INTERESTS THEY WILL BE WORKING. YUGOSLAVS GOT THEIR
KNUCKLES RAPPED BY US IN THIS PROCESS LAST FALL, AND JUST
POSSIBLY THEIR APPROACH THIS YEAR WILL BE MORE DEFT AND GIVE
MORE CONSIDERATION TO THEIR REAL RATHER THAN TO THEIR IMAGINED
INTERESTS. FURTHER, THEIR LEADERSHIP FERVOR MAY HAVE WANED
A BIT NOW THAT THE ALGERIANS HAVE STOLEN SHOW WITH SIXTH
SPECIAL UNGA SESSION FOLLOWING THEIR SUCCESS IN HOSTING
NONALIGNED SUMMIT. JOHNSON

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